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Subject TIME Story Now Online

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Hi Chad & Steve - Below is the much-anticipated TIME story along with links to other supporting coverage (e.g. photos & videos). The main story is a pretty straightforward piece which gets a bit personal at times, but overall, it's a very balanced (and sometimes humorous) look at the founding of YouTube and how the two of you came together to build one of the most transformative companies in recent memory.

There were no surprises in the way the topics we were initially concerned with were covered - Jawed is only briefly mentioned, the dinner party story is scrutinized, Kathy's dad is mentioned as only having given you advice in the early days of YouTube.

My only concern is the comments made by Gideon about sharing budgets with Google. It might be worthwhile to give the Google folks a heads-up that Gideon's words were taken a bit out of context and that he certainly wasn't purporting to deceive anyone. I'll leave it up to you guys and Gideon to decide on how to handle.

I would expect us to get some interview requests once the issue hits newsstands on Monday, so we may want to consider honoring a few top tier inquiries. What do your schedules look like on Monday? In the meantime, we'll work on a brief statement for each of you that we can send to other outlets (of course, we'll send to you for approval first).

Again, congratulations on being featured in one of the most important media franchises in history!

Emily

FULL COVERAGE ON TIME.COM

Main feature story (also below)

<http://www.time.com/time/magazine/article/0,9171,1570721,00.html>

Here are the photos (some of which will appear in the print issue)

<http://www.time.com/time/personoftheyear/2006/photoessay/youtube/>

Video of an early conversation (looks to have been taped by Jawed)

<http://www.time.com/time/personoftheyear/2006/video/>

Fast-forward version of photo shoot

<http://www.time.com/time/personoftheyear/2006/video/2.html>

## The YouTube Gurus

How a couple of regular guys built a company that changed the way we see ourselves

By JOHN CLOUD <javascript void(0)>

Posted Saturday, Dec 16, 2006

Let's say you're in your 20s and you start your first Internet company. Let's say 21 months later you sell it for \$1.65 billion. What happens next?

At first, not much. Some of the money is tied up in escrow, and the traditions of modesty in Silicon Valley require a period of restraint before you spend in the big, life-changing way that your wealth will permit.

Still, the world wants to talk to you. Japanese television, Argentine newspapers, a bunch of French journalists and what seems like every news outlet in the U.S. Friends you haven't heard from in a long time send e-mails. Hey, how's it going? Long time no see! BTW I have this great business idea.

And so even though you've just left a photo shoot with an imperious, name-dropping L.A. photographer and ride to the airport in a jet-black Escalade, when you arrive at LAX, you have to stand in the United Economy line because you're still flying coach. Having removed your shoes to get through security—an indignity you'll never again endure if one day you spend an inconsequential few million on a jet—you walk past a newsstand to see your company on the cover of *Wired* and *GQ*.

"Oh, and have you seen *Fortune*? Yeah, we're in there too."

And there they are: Steve Chen, 28, and Chad Hurley, 29, two of the

three founders of YouTube (the other, Jawed Karim, went to grad school last year), a couple of boy-men looking out from a magazine and up at themselves in real life. Then they board the plane, Steve way in the back and Chad closer to the front after paying an extra \$24 for an "Economy Plus" seat.

Such is life these days for Chad and Steve-and because they are still young enough to get the occasional pimple, I don't mind calling them Chad and Steve. They are premoguls, near magnates. They foreshadow but don't quite yet embody the wealth and power that accompany their role as the new demiurges of the online world. At a GQ party in West Hollywood, Calif., a few weeks ago, Al Gore tapped Steve on the shoulder outside the bathroom to congratulate him on the success of YouTube. Chad chatted with Leonardo DiCaprio, handsome and taller than you think and ashing his cigarette on the floor. But at the end of the night, the YouTube boys were hanging with the B crowd, Steve eating a burger (despite a disapproving glare from his girlfriend Julie) and Chad drinking until 2:30 a.m. with a guy who was in the Jackass movies-not even the main guy. Guys, you gotta know when to leave the party. (When Leo does.)

But of course the party is just starting for Chad and Steve, whose omnium-gatherum of online videos has captivated the Web for the past year, at least since a Saturday Night Live digital short called Lazy Sunday was forwarded millions of times last December, increasing visits to youtube.com 83%. (If you don't know Lazy Sunday, don't tell anyone, particularly anyone under 30. Just quietly YouTube it now.)

YouTube became a phenomenon in 2006 for many reasons, but one in particular: it was both easy and edgy, a rare combination. You can watch videos on the site without downloading any software or even registering. YouTube is to video browsing what a Wal-Mart Supercenter is to shopping: everything is there, and all you have to do is walk in the door. Want to see Mikhail Baryshnikov performing in Giselle in 1977? A user named "goldenidol" uploaded a clip in August. Want to see a sure-to-make-you-queasy video of a girl snorting a strand of cooked spaghetti and then choking it out her mouth? You're in luck. "asemoknyo" put that clip on YouTube last month. All it costs is a few moments away from whatever you're supposed to be doing on your computer-and who doesn't have 30 sec. to watch that priceless clip of Faith Hill mouthing "WHAT?" when she lost a Country Music Association Award this year? (That video has been viewed at least 6 million times.)

YouTube is a new kind of medium, but it's still mass. Your grandmother could use it (a search for "grandmother" on YouTube yields more than 1,800 videos). But because the site doesn't prescreen uploads-which is a lot cheaper for Chad and Steve than hiring a bunch of editors to police millions of users-it ends up hosting a lot of out-there stuff as well: obscure bands, tear-jerking video diaries, "dead dog tricks" (don't ask), a "German toilet" (please don't ask). The unmediated free-for-all encouraged the valuable notion that the site was grass-roots, community-run and-to use an overworked term-"viral." These are partial fictions, of course. YouTube controls the "Featured Videos" on its home page, which can dramatically popularize a posting that otherwise might fade. Also, the video in the top-right section of the home page is an advertisement, even though it doesn't always look like one. There's no porn on the site-overtly sexual material is flagged by users and removed by YouTube, usually very quickly. But there is an endless supply of kinda weird, kinda cool, kinda inspiring stuff there,

which means you can waste hours on Chad and Steve's site

That, in turn, means advertisers want to be on YouTube, which is why Google paid so much for it. If even, say, 10% of the \$54 billion spent on TV advertising annually migrates to video sites like YouTube in the next few years, we will pity Chad and Steve for selling for a mere \$1.65 billion. But for now, with YouTube still unproven-it has never made much money, and it could be crushed by lawsuits from content creators whose material shows up on the site without permission-the blockbuster acquisition price carries a whiff of the late-'90s Silicon Valley gold rush. It now falls to Chad, the CEO, and Steve, who runs the tech side, to prove that what they created with Karim will not become the next broadcast com, the video provider Yahoo! bought for \$5.7 billion in 1999-and which now doesn't exist.

Turning YouTube from a sensational rumpus to a profitable corporation will require Chad and Steve to thread the company through legal disputes, hire at least 100% more employees than they have now, negotiate with the biggest ad and media companies in the world, maintain their unique identity without getting swallowed up by Google, please shareholders, manage p r and flawlessly execute a thousand other tasks that far more experienced executives have flubbed. All while Chad has to make time for his wife and two small children, Steve needs to buy a car to replace his crappy Jeep Wrangler, and the broadband in the YouTube office is so slow, it takes forever to watch their own site. Can a couple of kids who grew up nowhere near Silicon Valley handle all this?

CHAD MEREDITH HURLEY has the lanky and languorous carnage of a teenager who just rolled out of bed. He wears a stubble beard over a complexion that doesn't see enough sun, and he has a habit of pushing his chin-length hair back from his forehead so that by the end of the day it's a bit oily and Gordon Gekko-ish.

Raised in the southeastern Pennsylvania town of Birdsboro, Chad is the middle child of Donald, a financial consultant, and JoAnn, a schoolteacher. He was an arty kid, always watercoloring and sculpting, which is not to say he ran with the artsy crowd. There is nothing affected or capering about Chad-his temperature runs so low he comes off at first as a dullard-and it's easy to imagine him as a slightly introverted, earnest boy trying to sell artwork (not lemonade) from his front lawn, as he did in an unsuccessful venture that taught him the difference between art and commerce.

Chad was unusual in that his artistic proclivities coincided with an interest in business and technology. In ninth grade, he built an amplifier that won third place in a national electronics competition. By the time he was in college, he would hole up for hours online, doing those things boys do these days-studying Web design, playing games, experimenting with animation. He did not come equipped with a sense of entitlement or snobbery; his brother Brent, 27, told me that to earn money during one summer in college, Chad joined a pyramid-marketing scheme for knife sets. "He would come over to our friends' houses and cut through a soda can or something," says Brent. "One of our family friends, they joke now, 'Hey, you sold us these knives and look at you now.'"

If it's true that people make their own luck, Chad made a lot of it. In 1999, he was finishing up at Indiana University of Pennsylvania, where

he had majored in computer science before switching to graphic design and printmaking ("Computer science, that was too technical, too mechanical for Chad," says his father Don "He wanted to be on the creative side " Chad spent much of his time running for the cross-country team, and he was in top shape at the time The not insubstantial paunch he has added since then is a source of some consternation ) Around graduation, Chad read an article about a new company called PayPal, which back then was trying to enable PDA users to beam money to each other Chad sent PayPal his resume, and on a Wednesday evening he came downstairs to announce he had a job interview on Friday The company flew him to California and asked him to show his skills by designing a company logo (it's still the PayPal logo to this day) That Sunday, PayPal's CEO offered Chad a job as the company's first designer He slept on a friend's floor for a few weeks, scrounging money for pizza before he got his first paycheck

It was a propitious move, Chad had joined a firm that would soon abandon the handheld-payment concept in favor of something far more lucrative securing online transactions In 2002 eBay bought PayPal for \$1.54 billion, and as an early employee, Chad walked away with enough to buy a few luxuries-including his Tag Heuer watch-and plenty of seed money for a future venture "Either he was incredibly brilliant and he saw the opportunity, or he was really lucky-I don't know," says Ryan Donahue, who was PayPal's second designer and roomed with Chad for a time "But to hit gold with your first job out of college is pretty rare And then for his first company to be YouTube, he's gotta be a smart guy "

Chad was also lucky to meet his future wife, Kathy Clark, at a party in 2000 Clark shared his interest in technology and in starting a family She also turned out to be the daughter of James Clark, the legendary Silicon Valley entrepreneur who founded or co-founded three billion-dollar-plus companies Silicon Graphics, Netscape and Healtheon His daughter, 36, is an intensely private person-she was reticent when I visited the Clark-Hurley home in Menlo Park, Calif , for a brief meal of takeout burritos in their trophy kitchen (Wolf range, lovely) She asked that I not reveal the names of the kids Kathy and Chad have never before publicly discussed her father's identity Their reluctance is understandable Jim Clark is one of the valley's most revered figures, and because he runs a media-sharing website-Shutterfly, founded in 1999-it would be tempting to think he was the real force behind the video-sharing site his son-in-law was starting But Chad says Clark has had only a tiny role in YouTube, merely offering the boys advice in 2005, when the start-up was seeking its initial round of funding "Basically I have never wanted to mix money and family, so we haven't talked much about it," Chad told me

Chad's greatest stroke of luck at PayPal was meeting Steve Chen and Jawed Karim, two PayPal engineers with whom he would occasionally bat around ideas for start-ups Karim, 27, enrolled at Stanford last year to pursue a master's in computer science, and today there's some tension between him and the other founders, who have become famous while he toils in a small, modestly furnished dorm room Although Karim is named on YouTube's site as a co-founder, Chad and Steve have promoted a highly simplified history of the company's founding that largely excludes him In the stripped-down version-repeated in dozens of news accounts-Chad and Steve got the idea in the winter of 2005, after they had trouble sharing videos online that had been shot at a dinner party at Steve's San Francisco apartment Karim says the dinner party never happened and

that the seed idea of video sharing was his-although he is quick to say its realization in YouTube required "the equal efforts of all three of us "

Chad and Steve both say that the party did occur but that Karim wasn't there "Chad and I are pretty modest, and Jawed has tried to seize every opportunity to take credit," Steve told me But he also acknowledged that the notion that YouTube was founded after a dinner "was probably very strengthened by marketing ideas around creating a story that was very digestible "

No company, of course, is ever founded in a single moment, and YouTube evolved over several months Chad and Steve agree that Karim deserves credit for the early idea that became, in Steve's words, "the original goal that we were working toward in the very beginning" a video version of HOTorNOT com

HOTorNOT is a dating site that encourages you to rate, on a scale of 1 to 10, the attractiveness of potential mates It's a brutal, singles-bar version of MySpace, but Karim says it was a pioneer "I was incredibly impressed with HOTorNOT, because it was the first time that someone had designed a website where anyone could upload content that everyone else could view That was a new concept because up until that point, it was always the people who owned the website who would provide the content "

The idea of a video version of HOTorNOT lasted only a couple of months "It was too narrow," says Chad He notes that another early idea was to help people share videos for online auctions But as the site went live in the spring of 2005, the founders realized that people were posting whatever videos they wanted Many kids were linking to YouTube from their MySpace pages, and YouTube's growth piggybacked on MySpace's (MySpace remains YouTube's largest single source of U S traffic, according to Hitwise ) "In the end, we just sat back," says Chad-and the free-for-all began Within months-even before Lazy Sunday-investors such as Time Warner and Sequoia Capital, a Menlo Park investment firm, began to approach YouTube about buying in Big advertisers started paying attention in October 2005, when a cool Nike ad-that-doesn't-look-like-an-ad of the Brazilian soccer player Ronaldinho went viral in a big way on YouTube Sequoia-which has helped finance Apple, Google and other valley greats-ended up providing about \$8.5 million in 2005-just in time for Steve to avoid having to increase his credit-card limit yet again to pay for various tech expenses

STEVE SHIH CHEN has always been something of a risk taker He left the University of Illinois at Urbana-Champaign a semester and a half early to work for PayPal His family was wary "We told him it was risky, he just had a few months left" in college, says his brother Ricky, 26 "But he was determined to give it a shot " Steve was drawn to PayPal partly because several U of I alumni worked there, including PayPal co-founder Max Levchin, who in turn was eager to hire Steve because of his educational background Steve had attended not only U of I -which has a well-respected computer-science program-but also the Illinois Mathematics and Science Academy (IMSA), a state-funded boarding school "IMSA plus U of I is generally a very winning formula," says Levchin, who says the combination produces "hard-core smart, hardworking, nonspoiled" young engineers who are perfect for start-ups "The kind of people that imsa attracts are the kind of people very prone to choose their own path," he says They also grow up quickly, since IMSA feels

more like a college than a high school. It's coed and highly competitive, the schoolwork is college level, and kids spend every possible second on the Internet.

Which isn't to say Steve is a geek—at least not an irremediable geek. Chad gets more attention for his laid-back cool look, but Steve is actually more fun to hang out with, particularly since he started drinking a year and a half ago (right around the time YouTube was founded, he jokingly wonders if there's a connection). Steve seems to wear the responsibilities of the company more lightly than Chad, and he has absorbed less of the heavy pressure of coaching. Steve, for instance, is willing to speculate about what his wealth might mean for him. "It's funny, you know, Chad and I will probably, are definitely at YouTube for the next five years. But you do start wondering, What's next? Now that you have some cash, and it's like, Well, if I could live in any city, where would I live?"

And?

"New York, in spite of the weather, is a cool place." For now, Steve lives in the San Francisco apartment he bought a bit rashly in 2005, when he had just left PayPal and YouTube was in its infancy.

Steve was born in Taipei and has his own interesting relationship with luck. When he was a little kid, maybe 6, his mother took him to see a fortune teller who told him he would never be rich. "And that's kind of stayed with me ever since," he told me. The experience left him with a sense of dread that he takes half-seriously. "We haven't actually seen any of the money [from the Google deal] yet," he says with a laugh, "and I keep thinking there will be some legal complication, or it will fall through somehow."

But things always seem to work out for Steve, who carries an aura of mischief with him like a cloud of cigarette smoke. He drinks cappuccino well into the night and doesn't get to work until noon approaches. Levchin says that when Steve was an engineer at PayPal, he quickly established himself as the guy who could find the "shortest, cleverest path instead of hammering your head against the wall. He'd be like, 'Yeah, I can get this feature done fast.' And the QA [quality assurance] team would be like, 'Oh, man, Chen wrote this. Great. I'm going to be QAing this for a while.' Because he would definitely take short cuts. But most people wouldn't really notice, and the product would be out faster."

As YouTube developed, Chad and Steve's complementary skills began to mesh. After Chad left PayPal in 2003, it seemed possible he would do something more artistic than be a CEO; he designed messenger bags, and he did a bit of work on a film Levchin helped fund, *Thank You for Smoking*. "He is sort of an anomaly," says Donahue, his former roommate and the founder of HourTown.com. "Because if you look at the successful start-up stories, the formulaic founders' team is usually an engineer and a business person, or two engineers. It's rarely a designer or a truly creative person." But YouTube's success owes partly to its retro name, simple logo and alternative feel, all of which Chad contributed while Steve was making sure the videos played quickly and easily.

A mentor had also arrived with the Sequoia financing. Pierre Lamond, 76. In terms of Silicon Valley stature, Lamond approaches Chad's.

father-in-law Jim Clark. A founder of National Semiconductor, Lamond started at Sequoia in 1981. He monitors his investments closely, and he enjoyed receiving daily e-mails from Chad and Steve (many sent late at night) on various site metrics. He was pleasantly surprised to discover that Chad and Steve were great listeners-a rare quality in the genius culture of the valley-and that they spent money very carefully. Whenever site growth would plateau, Lamond would call them and say, "What happened?" And they would tell me, 'We're running out of storage capacity.' Lamond sometimes had to push them to buy more.

Early on, Chad and Steve made a crucial good decision: despite pressure from advertisers, they would not force users to sit through ads before videos played. Pre-roll ads would have helped their bottom line in the struggling months, but the site would never have gained its mythological community-driven status. It would have seemed simply like another Big Media site.

The question is, How do they preserve the site's underground image now that YouTube is merely a bijou in the Google empire? As it happens, Google executives are powerfully aware of this problem, and they are sending outward signals that YouTube will remain independent. Google recently sent a team of facilities people to the YouTube office outside San Francisco to ask how the YouTubers want the place decorated (YouTube moved to the old Gap offices in San Bruno before the acquisition, and they haven't had time to fix up the space). "The direction we were given," Google's facilities manager, Ninette Wong, told Chad in a meeting, "was to really get information from you, Chad-you, the man!-and to understand how to integrate the YouTube brand into the work space. It's really to kind of keep Google separate from YouTube." With the old start-up frugality still in mind, Chad said that his coders don't need more space to work-"They don't complain"-and that greenery is a low priority because "I hear it's expensive to maintain the plants at Google."

Google will appreciate his thrifty approach, but it's unlikely that the company knows the extent of YouTube's current independence. In a recent YouTube management meeting I sat in on, Gideon Yu, late of Yahoo! and now cfo at YouTube, told Chad and Steve, "The finance team [at Google] has been pushing me really hard on budgeting, your favorite topic. So what I'm telling them and what I'm telling us are"-he paused-"different."

A nervous laugh shot through the room, but Yu pressed on. "What I'm telling them is that there's no way we're going to get them any budgetary numbers-that it's just impossible because we have no idea what the integration looks like, blah, blah, blah. And they're buying it, a little bit. But I still think that the 'us' team, here, should put together some kind of rudimentary kind of plan-even if we don't share that upward."

To be sure, Google will get some control for its \$1.65 billion. YouTube's managers must now report to Chad or Steve and a corresponding Google exec. That prompted Suzie Reidner, chief marketing officer, to ask the boys whether she now has two bosses. Without skipping a beat, Steve replied, "You only have to listen half the time." Playful as always, he added that he didn't think he was going to use a Google-supplied BlackBerry that would be fitted with Google's mail and calendar system.



The biggest threat to YouTube remains potential copyright lawsuits from content providers who could claim that the site-like Napster before it-is enabling thieves. In a recent report, Google acknowledged that "adverse results in these lawsuits may include awards of substantial monetary damages." Mark Cuban, the billionaire co-founder of Broadcast.com, has said publicly for months that the potential for legal trouble makes YouTube a bad investment. YouTube has responded by publicizing agreements it has made with media companies such as NBC Universal Television to legally show video clips from, say, The Office. Still, YouTube says federal law requires only that it remove videos when copyright holders complain-not to pre-emptively monitor the site for infringements, which would destroy its spontaneity. If kids can't play sad pop songs in the background of their video blogs, why would they blog at all?

In an e-mail, Cuban pointed out a contradiction in YouTube's position: "They are spending a ton of money to license content. Which makes me curious. Why license if all that content is viable under [federal law]? And when does the licensing ever end-won't everyone want [to get] paid? Even the personal videos of cats?"

Eric Schmidt, Google's CEO, told me his company had hired an outside firm to help it analyze YouTube's legal risks. "And we concluded that Mark Cuban's arguments were false. We read them, by the way. We just think he's false. Copyright law, the safe-harbor provisions-it works, as long as we do a good job of takedown"-quickly removing videos whenever copyright holders ask.

It's hard to imagine Chad and Steve sitting through endless meetings on safe-harbor laws. They're too young, too creative and-in Steve's case, at least-too peripatetic. They usually demur on questions of what they will do next, blandly stating their hopes to "improve the product," as Chad puts it. But Levchin, their former boss at PayPal, says, "The essential crisis is coming. They better get ready. And the essential crisis for an entrepreneur is, What is this all about? Did I just make the most money in my life ever? For what purpose? And am I going to start setting up my family office and manage my investments, or am I going to jump off another roof and hope there's a parachute?"

Which is a very old question indeed, one all newly wealthy people face when the market rewards them. Chad and Steve don't yet have an answer. They may have built a website that changed the online world in 2006, but they are still learning when to leave the party.

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